# AgCountry Farm Credit Services, ACA

**Quarterly Report**
**June 30, 2021**

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the consolidated financial condition and consolidated results of operations of AgCountry Farm Credit Services, ACA and its subsidiaries, AgCountry Farm Credit Services, FLCA and AgCountry Farm Credit Services, PCA. This discussion should be read in conjunction with both the unaudited consolidated financial information and related notes included in this Quarterly Report as well as Management's Discussion and Analysis included in our Annual Report for the year ended December 31, 2020 (2020 Annual Report).

Due to the nature of our financial relationship with AgriBank, FCB (AgriBank), the financial condition and results of operations of AgriBank materially impact our members' investment. To request free copies of AgriBank financial reports or additional copies of our report, contact us at:

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## NOTICE OF SIGNIFICANT OR MATERIAL EVENTS

Under a memorandum of understanding, the Boards of Directors of AgCountry Farm Credit Services, ACA and Farm Credit Services of North Dakota, ACA made a strategic decision to pursue a merger of the two organizations. The consolidated association would be named AgCountry Farm Credit Services, ACA and would be headquartered in Fargo, ND. Upon completion of the merger, the Association would serve over 25,000 customers in 82 counties in Minnesota, North Dakota, and Wisconsin, and have assets of over $10 billion. In July, at a joint meeting of the Boards of Directors, the Boards unanimously approved a resolution in favor of merging the two associations. If related approvals are received from AgriBank and the Farm Credit Administration (FCA), customer-owners will vote on the merger in late 2021. If approved, the merger will be effective no earlier than January 1, 2022.

## FORWARD-LOOKING INFORMATION

Any forward-looking statements in this Quarterly Report are based on current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from expectations due to a number of risks and uncertainties. More information about these risks and uncertainties is contained in our 2020 Annual Report. We undertake no duty to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

## AGRICULTURAL AND ECONOMIC CONDITIONS

The nation's economic outlook continued to improve during the second quarter of 2021 as the number of vaccinations increased and fiscal stimulus continued. U.S. Gross Domestic Product rebounded sharply in the third quarter and grew modestly in the fourth quarter of 2020. Both Bloomberg and Moody's Analytics are forecasting increases of 6.6% or higher in 2021, up from the 5.5% forecast in the first quarter. The unemployment rate edged down to 5.9% in June and is still predicted to reach the pre-pandemic rate of 3.5% by the end of 2023. The rate of vaccine distribution has declined as compared to the first quarter but the percent of the population receiving at least one dose rose to 55.2% compared to 30.7% in the first quarter. A broader set of the population is eligible for the vaccine as eligibility was reduced to age 12 in May.

The Federal Open Market Committee (FOMC) left the Fed Funds rate unchanged at 0.00% to 0.25% at its meeting June 15 - 16. Actions by the Fed continue to be guided by their mandate to promote maximum employment and stable prices while maintaining the stability of the financial system. The FOMC expects to maintain the current target range until labor market conditions have reached levels consistent with the FOMC's assessment of maximum employment and inflation is on track to moderately exceed 2.0% for some time. Forecasts from the FOMC participants have been revised to anticipate up to two rate increases in 2022 as compared to earlier indications that rates would be held steady through 2023.

The combination of low interest rates, an estimated $5.0 trillion in fiscal policy measures since the start of the pandemic, and proactive servicing continue to help mitigate the economic impact of the pandemic on AgCountry customers. We pay close attention to global, national, and local events, and continue to evaluate the impact of those events on our customers and our cooperative as we fulfill our mission to serve agriculture and rural America.

AgCountry serves a broad range of commodities and agricultural industries across its territory. The summaries below provide a high-level overview of conditions and outlook for the primary commodities. See www.agcountry.com/resources for a more comprehensive discussion of current economic conditions and impact on commodities.

### Specific Production Conditions

**Corn:** Balance sheets for both the 2020 and 2021 crops continued to tighten through the June World Agricultural Supply and Demand Estimates (WASDE) report. Due to lower-than-expected stocks in the June 30 Quarterly Grain Stocks, further revisions to the 2020 balance sheet are expected in July. Dry conditions in the Northwestern Corn Belt and less acreage than anticipated provide support for a lower estimate.

**Soybeans:** Soybean balance sheets for the 2020 and 2021 crop loosened slightly in the June WASDE report. However, like corn, quarterly stock numbers released June 30 were less than expected and indicate that prior estimates of a 120 million bushel carryout are more likely. Planted area was unchanged from the March to June estimates, leaving concern that the 2021 U.S. soybean crop may need further rationing.

**Wheat:** Wheat balance sheets are undergoing several changes as both the hard and soft red winter wheat crops appear to be yielding more than expected, benefitting from higher-than-normal precipitation in the Southern Plains and Eastern Corn Belt. Quality is being monitored but remains acceptable through the end of June. Offsetting quality is hot, dry conditions that have severely stressed the Hard Red Spring (HRS) and White wheat crops. Estimates of HRS wheat are now the lowest since 1988, although the United States Department of Agriculture will not issue class specific production estimates until mid-July.

**Sugarbeets:** The 2021 sugarbeet crop appears in good condition with soil moisture in the Red River Valley and Southern Minnesota sufficient to maintain the crop. Portions of the crop were replanted at the end of May due to high winds but are reported to be well established as of this writing. June WASDE reflected tighter ending stock estimates for the 2020 U.S. sugar crop due to lower cane sugar production estimates as well as a reduction in sugar import estimates under both the Tariff Rate Quota (TRQ) program and “Other Program” estimates (composed of re-exported sugar and sugar for polyhydric alcohol production).

**Dry Beans:** Dry bean prices remain high on lower planted area, with the planting decline primarily due to competition from higher-priced major crops like corn and soybeans. Black bean prices to dealers at the end of June were being quoted at an average of $37.80, very near the high end of the range of the past 5 years. Further, condition ratings in North Dakota have been affected by persistent hot, dry weather with the state estimating the 2021 crop at just 16% in good to excellent condition and 38% in poor to very poor condition, just as the crop hit bloom stage the last week of June.

**Ethanol:** Ethanol markets continue to be roiled by political turmoil, centered largely around the biofuel blending credits required by the Renewable Fuel Standard. A Supreme Court ruling mid-June indicated that waivers of these credits granted to small refineries were permissible. Disappointing to ethanol holders was the court ruling that the Environmental Protection Agency (EPA) did not have the authority to waive a regulation that required ethanol blends to be lower in many U.S. States through the summer months. Of major note is the reported $1.6 billion shortfall in blending credits being reported by major refineries. This shortfall could be granted relief by the EPA. If it is not, the end of the year could see a massive demand for both ethanol to blend and the Renewable Identification Numbers credits, both of which would be supportive to price.

**Lean Hogs:** Marketing was very active through the second quarter of the year as carcass weights declined significantly and Quarterly Hogs and Pigs reports showed the U.S. hog herd declined to the smallest numbers since late 2018. Reports of a sizeable uptick in Porcine Reproductive and Respiratory Syndrome outbreaks throughout Iowa and Minnesota also impacted numbers. However, markets are skeptical of continued Chinese pork demand as well as building cold storage stocks (although stocks remain historically low).

**Feeder Cattle/Fat Cattle:** It was a volatile second quarter for beef markets. Feeder Cattle futures are challenged by high corn prices while cash feeder markets are under pressure in the Dakotas and Western states from continuing herd liquidation. This liquidation is largely attached to extreme drought conditions in those areas but also raises the possibility that routine seasonal pressures later in the year may not arrive as those cattle are already sold and/or placed in lots. Fat cattle markets are in turmoil as the industry sorts out packing capacity, price reporting, and labeling issues.

**Dairy:** The dairy industry remains under pressure as milk prices have been steady to lower while feed costs have been rising exponentially. Production continues to ramp up with the June National Agricultural Statistics Service Milk Production report estimating total production per cow to be 2,088 pounds, up 61 pounds from May of 2020. Further, the number of milking cows was up 145,000 head from a year before, and up 5,000 cows from April to May of 2021. The Farm Service agency made payments under the Dairy Margin Coverage program for April, May, and June.

## LOAN PORTFOLIO

### Loan Portfolio

Total loans were $8.6 billion at June 30, 2021, an increase of $113.9 million from December 31, 2020. The increase was primarily due to growth in the agribusiness and capital markets portfolio.

The Paycheck Protection Program (PPP) is a guaranteed loan program administered by the U.S. Small Business Administration (SBA) created in response to the COVID-19 pandemic. We obtained approval from the SBA in 2020 to participate as a lender in the PPP. The PPP provides for payment deferral, and when certain requirements are fulfilled, loan forgiveness. As of June 30, 2021, we had successfully processed $88.3 million in PPP loans for customers with primarily production and intermediate-term type loans, of which $56.3 million were processed during the first half of 2021. We are working with our customers gathering documentation and submitting applications for the forgiveness of the PPP loans and $36.5 million has been forgiven as of June 30, 2021.

## Portfolio Credit Quality

The credit quality of our portfolio remained stable from December 31, 2020. Adversely classified loans are loans we have identified as showing some credit weakness outside our credit standards. We have considered portfolio credit quality in assessing the reasonableness of our allowance for loan losses.

In certain circumstances, Federal Agricultural Mortgage Corporation and other government agency guarantee programs are used to reduce the risk of loss. At June 30, 2021, $385.3 million of our loans were, substantially, guaranteed under these government programs.

## Risk Assets

**Components of Risk Assets**

| (dollars in thousands)<br>As of: | **June 30, 2021** | December 31, 2020 |
|---|---|---|
| Loans: | | |
| Nonaccrual | **$ 11,424** | $ 14,349 |
| Accruing restructured | **2,134** | 1,982 |
| Accruing loans 90 days or more past due | **1,655** | 2,097 |
| Total risk loans | **15,213** | 18,428 |
| Other property owned | **--** | -- |
| Total risk assets | **$ 15,213** | $ 18,428 |
| Total risk loans as a percentage of total loans | **0.2%** | 0.2% |
| Nonaccrual loans as a percentage of total loans | **0.1%** | 0.2% |
| Current nonaccrual loans as a percentage of total nonaccrual loans | **44.8%** | 34.3% |
| Total delinquencies as a percentage of total loans | **0.1%** | 0.2% |

Note: Accruing loans include accrued interest receivable.

Our risk assets have decreased from December 31, 2020 and have remained at acceptable levels. Total risk loans as a percentage of total loans were well within our established risk management guidelines.

## Allowance for Loan Losses

The allowance for loan losses is an estimate of losses on loans inherent in our portfolio as of the financial statement date. We determine the appropriate level of allowance for loan losses based on periodic evaluation of factors such as loan loss history, estimated probability of default, estimated loss severity, portfolio quality, and current economic and environmental conditions.

**Allowance Coverage Ratios**

| As of: | **June 30, 2021** | December 31, 2020 |
|---|---|---|
| Allowance as a percentage of: | | |
| Loans | **0.3%** | 0.3% |
| Nonaccrual loans | **198.8%** | 155.7% |
| Total risk loans | **149.3%** | 121.3% |

In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at June 30, 2021.

## RESULTS OF OPERATIONS

**Profitability Information**

| (dollars in thousands)<br>For the six months ended June 30 | **2021** | 2020 |
|---|---|---|
| Net income | **$ 82,970** | $ 79,691 |
| Return on average assets | **1.9%** | 1.9% |
| Return on average members' equity | **8.6%** | 8.8% |

Changes presented in the profitability information chart relate directly to:

- Changes in income discussed in this section
- Changes in assets discussed in the Loan Portfolio section
- Changes in capital discussed in the Funding, Liquidity, and Capital section

**Changes in Significant Components of Net Income**

| (in thousands)<br>For the six months ended June 30 | 2021 | 2020 | Increase (decrease) in net income |
|---|---|---|---|
| Net interest income | **$ 104,370** | $ 100,330 | **$ 4,040** |
| Provision for (reversal of) credit losses | **512** | (351) | **(863)** |
| Non-interest income | **42,884** | 37,814 | **5,070** |
| Non-interest expense | **63,273** | 58,804 | **(4,469)** |
| Provision for income taxes | **499** | -- | **(499)** |
| Net income | **$ 82,970** | $ 79,691 | **$ 3,279** |

### Non-Interest Income

The increase in non-interest income was primarily due to fees collected from the SBA for originating PPP loans. Costs associated with administering the program are included in non-interest expense.

## FUNDING, LIQUIDITY, AND CAPITAL

We borrow from AgriBank, under a note payable, in the form of a line of credit. Our note payable is scheduled to mature on June 30, 2023. We intend to renegotiate the note payable no later than the maturity date. The repricing attributes of our line of credit generally correspond to the repricing attributes of our loan portfolio, which significantly reduces our market interest rate risk. Due to the cooperative structure of the Farm Credit System and as we are a stockholder of AgriBank, we expect this borrowing relationship to continue into the foreseeable future. Our other source of lendable funds is from equity.

The components of cost of funds associated with our note payable include:

- A marginal cost of debt component
- A spread component, which includes cost of servicing, cost of liquidity, and bank profit
- A risk premium component, if applicable

We were not subject to a risk premium at June 30, 2021, or December 31, 2020.

Total members' equity increased $49.0 million from December 31, 2020, primarily due to net income for the period partially offset by patronage distribution accruals.

The FCA Regulations require us to maintain minimums for our common equity tier 1, tier 1 capital, total capital, and permanent capital risk-based capital ratios. In addition, the FCA requires us to maintain minimums for our non-risk-adjusted ratios of tier 1 leverage and unallocated retained earnings and equivalents leverage. Refer to Note 6 in our 2020 Annual Report for a more complete description of these ratios.

**Regulatory Capital Requirements and Ratios**

| As of: | June 30, 2021 | December 31, 2020 | Regulatory Minimums | Capital Conservation Buffer | Total |
|---|---|---|---|---|---|
| Risk-adjusted: | | | | | |
| Common equity tier 1 ratio | **17.6%** | 18.1% | 4.5% | 2.5% | 7.0% |
| Tier 1 capital ratio | **17.6%** | 18.1% | 6.0% | 2.5% | 8.5% |
| Total capital ratio | **17.9%** | 18.4% | 8.0% | 2.5% | 10.5% |
| Permanent capital ratio | **17.7%** | 18.1% | 7.0% | N/A | 7.0% |
| Non-risk-adjusted: | | | | | |
| Tier 1 leverage ratio | **20.1%** | 20.4% | 4.0% | 1.0% | 5.0% |
| Unallocated retained earnings and equivalents leverage ratio | **21.3%** | 21.7% | 1.5% | N/A | 1.5% |

Capital ratios are directly impacted by the changes in capital, as more fully explained in this section, the changes in assets, as discussed in the Loan Portfolio section, and off-balance sheet commitments, as disclosed in Note 10 in our 2020 Annual Report.

## COVID-19 PANDEMIC

The COVID-19 pandemic continues to linger into the second quarter of 2021. However, as domestic public health measures have been implemented to limit the spread of the virus, including the availability of vaccines, many locations across the United States have been able to lift many or all restrictions. The overall economy continues to recover, and the outlook is positive for many sectors, including agriculture.

The extent to which the COVID-19 pandemic continues to impact the Association will depend on future developments that are highly uncertain and cannot be predicted. However, we have weathered the significant challenges presented to date. Our business continuity response has allowed us to continue to serve our mission, and a remote work environment allowed us to continue to maintain the health of our employees and operate without loss of key functions due to illness. We have not had any significant changes to internal controls over financial reporting due to working remotely.

## CERTIFICATION

The undersigned have reviewed the June 30, 2021, Quarterly Report of AgCountry Farm Credit Services, ACA, which has been prepared under the oversight of the Audit Committee and in accordance with all applicable statutory or regulatory requirements. The information contained herein is true, accurate, and complete to the best of our knowledge and belief.

Edward J. Hegland
Board Chair
AgCountry Farm Credit Services, ACA

Marcus L. Knisely
President and Chief Executive Officer
AgCountry Farm Credit Services, ACA

Rebecca A. Thibert
Chief Financial Officer
AgCountry Farm Credit Services, ACA

August 3, 2021

# CONSOLIDATED STATEMENTS OF CONDITION

*AgCountry Farm Credit Services, ACA*
*(in thousands)*
*(Unaudited)*

| As of: | | June 30, 2021 | | December 31, 2020 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Loans | **$** | **8,586,001** | $ | 8,472,145 |
| Allowance for loan losses | | **22,716** | | 22,344 |
| Net loans | | **8,563,285** | | 8,449,801 |
| Investment in AgriBank, FCB | | **216,675** | | 212,294 |
| Accrued interest receivable | | **67,356** | | 80,693 |
| Premises and equipment, net | | **35,065** | | 35,937 |
| Deferred tax assets, net | | **--** | | 127 |
| Other assets | | **93,927** | | 90,670 |
| Total assets | **$** | **8,976,308** | $ | 8,869,522 |
| **LIABILITIES** | | | | |
| Note payable to AgriBank, FCB | **$** | **6,931,425** | $ | 6,830,857 |
| Accrued interest payable | | **19,869** | | 19,582 |
| Deferred tax liabilities, net | | **372** | | -- |
| Patronage distribution payable | | **34,499** | | 64,050 |
| Other liabilities | | **38,146** | | 51,998 |
| Total liabilities | | **7,024,311** | | 6,966,487 |
| Contingencies and commitments (Note 3) | | | | |
| **MEMBERS' EQUITY** | | | | |
| Capital stock and participation certificates | | **11,779** | | 11,936 |
| Capital stock and participation certificates receivable | | **(11,779)** | | (11,936) |
| Additional paid-in capital | | **304,385** | | 304,385 |
| Unallocated surplus | | **1,656,783** | | 1,608,312 |
| Accumulated other comprehensive loss | | **(9,171)** | | (9,662) |
| Total members' equity | | **1,951,997** | | 1,903,035 |
| Total liabilities and members' equity | **$** | **8,976,308** | $ | 8,869,522 |

*The accompanying notes are an integral part of these Consolidated Financial Statements.*

# CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

*AgCountry Farm Credit Services, ACA*
*(in thousands)*
*(Unaudited)*

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| *For the period ended June 30* | **2021** | 2020 | **2021** | 2020 |
| **Interest income** | **$ 72,775** | $ 78,233 | **$ 144,708** | $ 163,947 |
| **Interest expense** | **20,113** | 27,289 | **40,338** | 63,617 |
| Net interest income | **52,662** | 50,944 | **104,370** | 100,330 |
| **(Reversal of) provision for credit losses** | **(96)** | (43) | **512** | (351) |
| Net interest income after (reversal of) provision for credit losses | **52,758** | 50,987 | **103,858** | 100,681 |
| **Non-interest income** | | | | |
| Patronage income | **12,502** | 11,690 | **23,546** | 22,864 |
| Financially related services income | **3,477** | 2,348 | **7,472** | 6,042 |
| Fee income | **5,589** | 3,975 | **11,710** | 6,125 |
| Allocated Insurance Reserve Accounts distribution | **--** | -- | **--** | 1,554 |
| Other non-interest income | **177** | 357 | **156** | 1,229 |
| Total non-interest income | **21,745** | 18,370 | **42,884** | 37,814 |
| **Non-interest expense** | | | | |
| Salaries and employee benefits | **18,619** | 18,358 | **37,023** | 35,958 |
| Other operating expense | **13,403** | 10,562 | **26,195** | 22,842 |
| Other non-interest expense | **41** | 3 | **55** | 4 |
| Total non-interest expense | **32,063** | 28,923 | **63,273** | 58,804 |
| Income before income taxes | **42,440** | 40,434 | **83,469** | 79,691 |
| **Provision for (benefit from) income taxes** | **567** | (1,278) | **499** | -- |
| Net income | **$ 41,873** | $ 41,712 | **$ 82,970** | $ 79,691 |
| **Other comprehensive income** | | | | |
| Employee benefit plans activity | **$ 246** | $ 111 | **$ 491** | $ 243 |
| Total other comprehensive income | **246** | 111 | **491** | 243 |
| Comprehensive income | **$ 42,119** | $ 41,823 | **$ 83,461** | $ 79,934 |

*The accompanying notes are an integral part of these Consolidated Financial Statements.*

# CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

*AgCountry Farm Credit Services, ACA*
*(in thousands)*
*(Unaudited)*

| | Capital Stock and Participation Certificates and Receivable, Net | Additional Paid-in Capital | Unallocated Surplus | Accumulated Other Comprehensive Loss | Total Members' Equity |
|---|---|---|---|---|---|
| Balance at December 31, 2019 | $ 12,151 | $ 304,385 | $ 1,488,700 | $ (5,412) | $ 1,799,824 |
| Net income | -- | -- | 79,691 | -- | 79,691 |
| Other comprehensive income | -- | -- | -- | 243 | 243 |
| Unallocated surplus designated for patronage distributions | -- | -- | (31,500) | -- | (31,500) |
| Capital stock and participation certificates issued | 467 | -- | -- | -- | 467 |
| Capital stock and participation certificates retired | (163) | -- | -- | -- | (163) |
| Capital stock and participation certificates receivable, net | (12,455) | -- | -- | -- | (12,455) |
| Balance at June 30, 2020 | $ -- | $ 304,385 | $ 1,536,891 | $ (5,169) | $ 1,836,107 |
| Balance at December 31, 2020 | $ -- | $ 304,385 | $ 1,608,312 | $ (9,662) | $ 1,903,035 |
| Net income | **--** | **--** | **82,970** | **--** | **82,970** |
| Other comprehensive income | **--** | **--** | **--** | **491** | **491** |
| Unallocated surplus designated for patronage distributions | **--** | **--** | **(34,499)** | **--** | **(34,499)** |
| Capital stock and participation certificates issued | **471** | **--** | **--** | **--** | **471** |
| Capital stock and participation certificates retired | **(628)** | **--** | **--** | **--** | **(628)** |
| Reductions to capital stock and participation certificates receivable, net | **157** | **--** | **--** | **--** | **--** **157** |
| **Balance at June 30, 2021** | **$ --** | **$ 304,385** | **$ 1,656,783** | **$ (9,171)** | **$ 1,951,997** |

*The accompanying notes are an integral part of these Consolidated Financial Statements.*

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The Consolidated Financial Statements contain all adjustments necessary for a fair presentation of the interim Consolidated Statements of Condition and Consolidated Statements of Comprehensive Income. Our accounting and reporting policies conform to accounting principles generally accepted in the United States of America (GAAP) and the prevailing practices within the financial services industry. This interim Quarterly Report is prepared based upon statutory and regulatory requirements and in accordance with GAAP. However, certain disclosures required by GAAP are omitted. The results of the six months ended June 30, 2021, are not necessarily indicative of the results to be expected for the year ending December 31, 2021. The interim financial statements and the related notes in this Quarterly Report should be read in conjunction with the Consolidated Financial Statements and related notes included in our Annual Report for the year ended December 31, 2020 (2020 Annual Report).

The Consolidated Financial Statements present the consolidated financial results of AgCountry Farm Credit Services, ACA and its subsidiaries AgCountry Farm Credit Services, FLCA and AgCountry Farm Credit Services, PCA. All material intercompany transactions and balances have been eliminated in consolidation.

#### Significant Accounting Policies

Effective March 2021, a change in accounting policy was elected to use the fair value method for calculating the market-related value of assets for the fixed-income pension assets. This change in accounting principle did not have a material impact on the financial statements.

There have been no other changes in our accounting policies as disclosed in our 2020 Annual Report, except as described in the Recently Issued or Adopted Accounting Pronouncements.

#### Recently Issued or Adopted Accounting Pronouncements

We have assessed the potential impact of accounting standards that have been issued by the Financial Accounting Standards Board (FASB) and have determined the following standards to be applicable to our business. While we are a nonpublic entity, our financial results are closely related to the performance of the combined Farm Credit System. Therefore, we typically adopt accounting pronouncements in alignment with other System institutions.

| Standard and effective date | Description | Adoption status and financial statement impact |
|---|---|---|
| In March 2020, the FASB issued Accounting Standards Update (ASU) 2020-04 “Reference Rate Reform, Topic 848.” In January 2021, the FASB issued ASU 2021-01 further amending Topic 848. This guidance may be elected and applied prospectively over time from March 12, 2020, through December 31, 2022, as reference rate reform activities occur. | The guidance provides optional expedients and exceptions for applying GAAP to contracts and other transactions affected by reference rate reform. The guidance simplifies the accounting evaluation of contract modifications that replace a reference rate affected by reference rate reform and contemporaneous modifications of other contract terms related to the replacement of the reference rate. | During March 2021, we adopted this standard. To date, the adoption of this standard has not had a material impact on our financial condition, results of operations, cash flows, and financial statement disclosures. |
| In June 2016, the FASB issued ASU 2016-13 “Financial Instruments - Credit Losses." The guidance was originally effective for non-U.S. Securities Exchange Commission filers for the first quarter of 2021. In November 2019, the FASB issued ASU 2019-10 that amended the mandatory effective date for this guidance for certain institutions. We have determined we qualify for the deferral of the mandatory effective date. As a result of the change, the standard is effective for our first quarter of 2023 and early adoption is permitted. | The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses. | We expect to adopt the standard as of January 1, 2023. We are currently assessing the impact this guidance will have on our financial statements upon adoption, which will be impacted by the composition of our portfolio and asset quality at the adoption date, as well as economic conditions and forecasts at the time of adoption. We have reviewed the accounting standard, selected and substantially completed development and testing of our system, and are in the process of drafting disclosures. Significant implementation matters yet to be addressed include drafting of accounting policies and designing processes and controls. We are currently unable to estimate the impact on our financial statements. |

## NOTE 2: LOANS AND ALLOWANCE FOR LOAN LOSSES

**Loans by Type**

(dollars in thousands)

| As of: | June 30, 2021 | | | December 31, 2020 | | |
|---|---|---|---|---|---|---|
| | | Amount | % | | Amount | % |
| Real estate mortgage | **$** | **3,766,778** | **43.9%** | $ | 3,659,953 | 43.2% |
| Production and intermediate-term | | **1,922,309** | **22.4%** | | 2,058,139 | 24.3% |
| Agribusiness | | **2,121,571** | **24.7%** | | 2,030,071 | 24.0% |
| Other | | **775,343** | **9.0%** | | 723,982 | 8.5% |
| Total | **$** | **8,586,001** | **100.0%** | $ | 8,472,145 | 100.0% |

The other category is primarily composed of communication, energy, agricultural export finance, and water and wastewater related loans.

### Delinquency

**Aging Analysis of Loans**

| (in thousands)<br>**As of June 30, 2021** | 30-89 Days Past Due | 90 Days or More Past Due | Total Past Due | Not Past Due or Less than 30 Days Past Due | Total | Accruing Loans 90 Days or More Past Due |
|---|---|---|---|---|---|---|
| Real estate mortgage | **$ 1,485** | **$ 5,757** | **$ 7,242** | **$ 3,802,090** | **$ 3,809,332** | **$ 1,655** |
| Production and intermediate-term | **1,955** | **2,427** | **4,382** | **1,936,073** | **1,940,455** | **--** |
| Agribusiness | **292** | **--** | **292** | **2,126,734** | **2,127,026** | **--** |
| Other | **--** | **32** | **32** | **776,512** | **776,544** | **--** |
| Total | **$ 3,732** | **$ 8,216** | **$ 11,948** | **$ 8,641,409** | **$ 8,653,357** | **$ 1,655** |

| As of December 31, 2020 | 30-89 Days Past Due | 90 Days or More Past Due | Total Past Due | Not Past Due or Less than 30 Days Past Due | Total | Accruing Loans 90 Days or More Past Due |
|---|---|---|---|---|---|---|
| Real estate mortgage | $ 587 | $ 6,623 | $ 7,210 | $ 3,700,605 | $ 3,707,815 | $ 1,490 |
| Production and intermediate-term | 3,776 | 5,079 | 8,855 | 2,076,287 | 2,085,142 | 607 |
| Agribusiness | 50 | -- | 50 | 2,035,031 | 2,035,081 | -- |
| Other | 32 | -- | 32 | 724,768 | 724,800 | -- |
| Total | $ 4,445 | $ 11,702 | $ 16,147 | $ 8,536,691 | $ 8,552,838 | $ 2,097 |

Note: Accruing loans include accrued interest receivable.

### Risk Loans

Risk loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms.

**Risk Loan Information**

| (in thousands)<br>As of: | | **June 30, 2021** | | December 31, 2020 |
|---|---|---|---|---|
| Volume with specific allowance | **$** | **4,411** | $ | 1,585 |
| Volume without specific allowance | | **10,802** | | 16,843 |
| Total risk loans | **$** | **15,213** | $ | 18,428 |
| Total specific allowance | **$** | **1,679** | $ | 1,013 |
| For the six months ended June 30 | | **2021** | | 2020 |
| Income on accrual risk loans | **$** | **142** | $ | 68 |
| Income on nonaccrual loans | | **535** | | 1,464 |
| Total income on risk loans | **$** | **677** | $ | 1,532 |
| Average risk loans | **$** | **17,653** | $ | 28,077 |

Note: Accruing loans include accrued interest receivable.

We had no material commitments to lend additional money to borrowers whose loans were classified as risk loans at June 30, 2021.

### Troubled Debt Restructurings (TDRs)

In situations where, for economic or legal reasons related to the borrower's financial difficulties, we grant a concession for other than an insignificant period of time to the borrower that we would not otherwise consider, the related loan is classified as a TDR, also known as a formally restructured loan for regulatory purposes. A concession is generally granted in order to minimize economic loss and avoid foreclosure. Concessions vary by program and borrower and may include interest rate reductions, term extensions, payment deferrals, or an acceptance of additional collateral in lieu of payments. In limited circumstances, principal may be forgiven. Loans classified as TDRs are considered risk loans. All risk loans are analyzed within our allowance for loan losses. We record a specific allowance to reduce the carrying amount of the restructured loan to the lower of book value or net realizable value of collateral. There may be modifications made related to the COVID-19 pandemic or in the normal course of business that would not be considered TDRs.

**TDR Activity**

| (in thousands)<br>Six months ended June 30 | **2021** | | 2020 | |
|---|---|---|---|---|
| | Pre-modification | Post-modification | Pre-modification | Post-modification |
| Real estate mortgage | **$ 1,601** | **$ 1,601** | $ 264 | $ 264 |
| Production and intermediate-term | **--** | **--** | 1,400 | 1,400 |
| Agribusiness | **--** | **--** | 37 | 37 |
| Total | **$ 1,601** | **$ 1,601** | $ 1,701 | $ 1,701 |

Pre-modification represents the outstanding recorded investment of the loan just prior to restructuring and post-modification represents the outstanding recorded investment of the loan immediately following the restructuring. The recorded investment is the unpaid principal amount of the receivable increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, acquisition costs, and unamortized adjustments to fair value on loans acquired through the merger and may also reflect a previous direct charge-off of the investment.

The primary types of modification included deferral of principal and extension of maturity.

There were no TDRs that defaulted during the six months ended June 30, 2021, or 2020 in which the modification was within twelve months of the respective reporting period.

**TDRs Outstanding**

| (in thousands)<br>As of: | **June 30, 2021** | December 31, 2020 |
|---|---|---|
| Accrual status: | | |
| Real estate mortgage | **$ 2,088** | $ 515 |
| Production and intermediate-term | **46** | 1,467 |
| Agribusiness | **--** | -- |
| Total TDRs in accrual status | **$ 2,134** | $ 1,982 |
| Nonaccrual status: | | |
| Real estate mortgage | **$ 1,437** | $ 1,666 |
| Production and intermediate-term | **194** | 248 |
| Agribusiness | **17** | 19 |
| Total TDRs in nonaccrual status | **$ 1,648** | $ 1,933 |
| Total TDRs: | | |
| Real estate mortgage | **$ 3,525** | $ 2,181 |
| Production and intermediate-term | **240** | 1,715 |
| Agribusiness | **17** | 19 |
| Total TDRs | **$ 3,782** | $ 3,915 |

There were no commitments to lend to borrowers whose loans have been modified in a TDR at June 30, 2021.

### Allowance for Loan Losses

**Changes in Allowance for Loan Losses**

| (in thousands)<br>Six months ended June 30 | **2021** | 2020 |
|---|---|---|
| Balance at beginning of period | **$ 22,344** | $ 26,974 |
| Provision for (reversal of) loan losses | **364** | (1,163) |
| Loan recoveries | **9** | 264 |
| Loan charge-offs | **(1)** | (109) |
| Balance at end of period | **$ 22,716** | $ 25,966 |

The “(Reversal of) provision for credit losses” in the Consolidated Statements of Comprehensive Income includes a provision for (reversal of) loan losses as presented in the previous chart, as well as a provision for credit losses on unfunded commitments. The accrued credit losses on unfunded commitments are recorded in “Other liabilities” in the Consolidated Statements of Condition. Typically, accrued credit losses are relieved and replaced with an allowance for loan loss as the related commitments are funded.

**Credit Loss Information on Unfunded Commitments**

| (in thousands)<br>For the six months ended June 30 | | **2021** | | 2020 |
|---|---|---|---|---|
| Provision for credit losses | **$** | **148** | $ | 812 |
| As of: | | **June 30, 2021** | | December 31, 2020 |
| Accrued credit losses | **$** | **3,986** | $ | 3,838 |

## NOTE 3: CONTINGENCIES AND COMMITMENTS

In the normal course of business, we have various contingent liabilities and commitments outstanding, primarily commitments to extend credit, which may not be reflected in the Consolidated Financial Statements. We do not anticipate any material losses because of these contingencies or commitments.

We may be named as a defendant in certain lawsuits or legal actions in the normal course of business. At the date of these Consolidated Financial Statements, our management team was not aware of any material actions. However, management cannot ensure that such actions or other contingencies will not arise in the future.

We and other Farm Credit Institutions are among the limited partners for Rural Business Investment Companies (RBICs). As of June 30, 2021, our total commitment was $14.0 million of which $2.9 million was unfunded, with varying commitment end dates through November 2023. Certain commitments may have an option to extend under certain circumstances.

## NOTE 4: FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or most advantageous market for the asset or liability. Accounting guidance also establishes a fair value hierarchy, with three input levels that may be used to measure fair value. Refer to Note 2 in our 2020 Annual Report for a more complete description of the three input levels.

We did not have any assets or liabilities measured at fair value on a recurring basis at June 30, 2021, or December 31, 2020.

### Non-Recurring Basis

We may be required, from time to time, to measure certain assets at fair value on a non-recurring basis.

**Assets Measured at Fair Value on a Non-Recurring Basis**

| (in thousands)<br>**As of June 30, 2021** | Fair Value Measurement Using | | | | | | Total Fair |
|---|---|---|---|---|---|---|---|
| | | Level 1 | | Level 2 | | Level 3 | | Value |
| Impaired loans | **$** | **--** | **$** | **--** | **$** | **2,869** | **$** | **2,869** |
| As of December 31, 2020 | Fair Value Measurement Using | | | | | | | Total Fair |
| | | Level 1 | | Level 2 | | Level 3 | | Value |
| Impaired loans | $ | -- | $ | -- | $ | 601 | $ | 601 |

### Valuation Techniques

**Impaired Loans:** Represents the carrying amount of loans which were evaluated for individual impairment based on the appraised value of the underlying collateral. When the value of the collateral, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established. Costs to sell represent transaction costs and are not included as a component of the asset’s fair value. If the process uses observable market-based information, they are classified as Level 2. If the process requires significant input based on management’s knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters, they are classified as Level 3.

## NOTE 5: SUBSEQUENT EVENTS

We have evaluated subsequent events through August 3, 2021, which is the date the Consolidated Financial Statements were available to be issued. There have been no material subsequent events that would require recognition in our Quarterly Report or disclosure in the Notes to Consolidated Financial Statements.